

OPEN MEETING ITEM



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COMMISSIONERS
GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

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ARIZONA CORPORATION COMMISSION

2011 OCT 13 P 2:28

AZ CORP COMMISSION
DOCKET CONTROL

DATE: OCTOBER 13, 2011

DOCKET NOS.: W-20435A-09-0296 and W-20435A-09-0298

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Order on:

SONOITA VALLEY WATER COMPANY
(RATES/FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

OCTOBER 24, 2011

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

NOVEMBER 8, 2011 and NOVEMBER 9, 2011

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

OCT 13 2011

DOCKETED BY	
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ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 GARY PIERCE - Chairman
4 BOB STUMP
5 SANDRA D. KENNEDY
6 PAUL NEWMAN
7 BRENDA BURNS

7 IN THE MATTER OF THE APPLICATION OF
8 SONOITA VALLEY WATER COMPANY FOR
9 APPROVAL OF A RATE INCREASE.

DOCKET NO. W-20435A-09-0296

9 IN THE MATTER OF THE APPLICATION OF
10 SONOITA VALLEY WATER COMPANY FOR
11 AUTHORITY TO INCUR DEBT TO FINANCE
12 WATER SYSTEM IMPROVEMENTS.

DOCKET NO. W-20435A-09-0298

DECISION NO. _____

11 **ORDER**

12 Open Meeting
13 November 8 and 9, 2011
14 Phoenix, Arizona

14 **BY THE COMMISSION:**

15 * * * * *

16 Having considered the entire record herein and being fully advised in the premises, the
17 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

18 **FINDINGS OF FACT**

19 1. Sonoita Valley Water Company ("SVWC" or "Company") provides water utility
20 service to approximately 98 customers in Santa Cruz County, Arizona. The Company is comprised of
21 what used to be two different companies -- Sonoita Valley Water Company and Southern Water
22 Company.

23 2. The Company operates three water systems. The Sonoita system serves
24 approximately 41 residential customers; the Southern/Los Encinos system serves approximately 38
25 residential customers and the Southern/Downtown system serves approximately 19 commercial
26 customers. A portion of the Southern/Los Encinos system is adjacent to the Sonoita system and the
27 two have an emergency interconnection. The Southern/Downtown system is approximately 2 miles
28 north of the other two and not physically interconnected with either.

3. On August 10, 2010, the Commission issued Decision No. 71830 in which it approved a rate increase for SVWC. In addition to new permanent rates, the Company had requested authority to borrow \$656,271 from the Water Infrastructure Finance Authority ("WIFA"), but the Commission determined that it required more information about the projects to be funded with the loan proceeds before it could approve the Company's borrowing request.

4. Although the Commission did not specifically approve the loan request, it recognized that the Company's infrastructure required significant repairs and upgrades that would need to be financed, and thus approved a financing surcharge mechanism to meet the principal and interest obligations of a future WIFA loan. The Commission kept the financing docket open and required the Company to file a detailed description and prioritization of construction projects to provide the Commission's Utilities Division ("Staff") with sufficient information to prepare a revised Staff Report on whether the proposed financing complies with the requirements of A.R.S. §§ 40-301 and - 302.¹

5. On May 3, 2011, SVWC filed a description and prioritization of proposed constructions projects.

6. On June 13, 2011, SVWC filed a letter with the Commissions stating that as of May 31, 2011, SVWC had only a 3.22 percent water loss.

7. On July 25, 2011, the Company filed Water Use Data Sheets by month for the calendar years 2010 and 2011 for each of its systems and an engineering evaluation of each of the systems. These filings indicate that the June 13, 2011, filing understated the water loss situation, and that the systems continue to suffer from frequent leaks.

8. The following projects, with estimated costs totaling \$292,540.68, were identified by the Company in its May 3, 2011, filing:

...

...

...

¹ Decision No. 71830 also required SVWC to file documentation from the Arizona Department of Water Resources ("ADWR") indicating that the Company's three systems meet ADWR requirements. SVWC filed an ADWR compliance report on September 7, 2010.

Item No.	Description	Qty	Unit	Unit Price	Total Cost	Notes
1	Meter Replacement Program	54	EA	\$75.00	\$4,050.00	Replacing meters in the Los Encinos and downtown areas. Due to the age of the meters, they do not read accurately. The Company believes if these meters are replaced, the percentage of water loss will be more accurate.
2	Water Line Replacement with new 4 inch C-900 Class 200 PVC Pipe	3,220	LF	\$22.50	\$82,110.00	This task includes locating the existing water lines and replacing 3,220 LF on Papago Springs Rd. and installing a line from the existing Los Encinos well site to the existing distribution system, and possibly replacing other lines if necessary.
	Locating Water Line	10,500	LF	\$0.76	\$7,980.00	
3	Los Encinos Well Site Improvements					This task includes installing new piping and appurtenances for the new booster station. A concrete slab will need to be poured for the booster station. New fencing with slats needs to be installed around the well site.
	Piping and appurtenances	1	LS	\$5,503.11	\$5,503.11	
	4" concrete slab	320	SF	\$9.39	\$3,005.60	
	Chain link fencing	1	LS	\$11,626.02	\$11,626.02	
4	Booster Pumps	2	EA	\$4,437.90	\$8,875.80	This task includes installing two new 5 hp booster pumps to feed the Los Encinos area
5	10,000 gallon steel reservoir	1	LS	\$35,000.00	\$35,000.00	This task includes replacing the existing tank with a new tank that will be installed at the Los Encinos well site.
6	Hydroneumatic tank	2	EA	\$14,865.00	\$29,730.00	This task includes replacing the existing

						hydro tank at the Papago Springs booster site with a new 2000 gallon hydro tank, and installing a new 2000 gallon tank at the Los Encinos well site.
7	Site Electrical	1	1.5	\$9,782.10	\$9,782.10	This task would include the installation of all the conduit, wire cables, controls and switches to the new booster station and the existing Los Encinos well.
	Subtotal Administration, Legal Submittal Fees 10% of total cost				\$197,662.63	
					\$19,766.26	
	Project Management, inspections 10% of total cost				\$19,766.26	
	Engineering 8 % of total cost				\$15,813.01	
	Survey 5% total cost				\$9,883.13	
	15% contingencies				\$29,649.39	
	Total				\$292,540.68	

9. On August 22, 2011, Staff filed a Memorandum in response to the Company's May 3, 2011, Project Prioritization and Cost Estimates. Staff compared the May 3, 2011, construction plan with the last construction plan that was submitted in the last rate case.² In its August 22, 2011, Engineering Memorandum, Staff noted that there were significant differences in the projects and the estimated costs between the two plans, and stated that the Company did not provide adequate explanation of the changes. Staff also noted that in its July 25, 2011, update, the Company submitted a fourth cost estimate for tasks, indicating an increase in cost to replace meters from \$2,470 to \$4,007. In addition, Staff believed that the Company's current 10,000 gallon storage capacity for the

² See Decision No. 71830, Findings of Fact No. 68.

1 Los Encinos system is inadequate and should be increased,³ but states that the Company's revised
2 estimates do not indicate how the plan to replace the 10,000 gallon tank with a tank of the same size
3 is adequate to address storage needs. Staff noted that a new well (which had been a substantial part
4 of the earlier request) was also not included in the latest plan. Staff stated that the Company provided
5 no explanations for the changes for the administrative and other project fees, and thus, Staff stated it
6 could not conclude that the proposed fees are reasonable.

7 10. In addition, the August 22, 2011, Staff Engineering Memorandum noted a discrepancy
8 between the Company's June 13, 2011, filing on water loss, and the water use data filed on July 25,
9 2011, such that Staff was unable to determine if the Company was in compliance with Decision No.
10 71830 regarding the reduction of water losses to less than 10 percent.

11 11. Engineering Staff concluded that due to the deficiencies noted above, Staff did not
12 have sufficient information to revise its Staff Report regarding the proposed capital improvements
13 and estimated costs.

14 12. On September 9, 2011, Staff filed a Supplemental Staff Report. Staff indicated that it
15 met with Mr. Buck Lewis, the Company's owner, to discuss the Company's "Description and
16 Prioritization of Proposed Construction Projects" filed on May 3, 2011. Based on those discussions,
17 Staff states the Company revised its estimated cost of the construction projects requested for
18 financing to \$228,000.

19 13. The record did not show that the Supplemental Staff Report had been sent to the
20 intervenor in the matter. By Procedural Order dated September 21, 2011, the Supplemental Staff
21 Report was sent to Ms. Vargo, who had intervened in the rate case. The Procedural Order required
22 any comments on the Supplemental Staff Report to be filed by October 3, 2011.

23 14. No party filed any comments on the Supplemental Staff Report.

24 15. Based on the September 1, 2011 discussions between the Company and Staff, the
25 Company revised its construction projects for the first phase of its capital improvements, as
26 summarized below:

27
28 ³ See Decision No. 71830 and Decision No. 69259 (January 19, 2007).

Table A

Site	Description	Qty	Unit Cost	Total Cost	Notes
Sonoita System	Water Line replacement with new 4-inch C-900 200 PVC Pipe	3,500 LF	\$25	\$87,500	Replace leaking water lines along Collie Drive
Los Encinos Well Site	Piping and appurtenances	--	--	\$5,500	Install new piping & appurtenances for the new booster pumps
Los Encinos Well Site	4-inch concrete slab	--	--	\$3,000	Install a new slab for the new booster pumps
Los Encinos Well Site	Chain link fencing	--	--	\$12,000	Install new fence
Los Encinos Well Site	Booster Pumps (5hp)	2	\$4,500	\$9,000	Install new pumps to feed Los Encinos
Los Encinos Well Site	Storage Tank (20,000 gallons)	1	\$35,000	\$35,000	Replace the existing 10,000 gallon tank to serve Los Encinos
Los Encinos Well Site	Bladder Tanks	4	\$1,250	\$5,000	Replace existing bladder tanks to serve Los Encinos
Los Encinos Well Site	Site Electrical	--	--	\$10,000	Install the conduit, wire cables, controls & switches to the new booster pumps and existing well
Sonoita Site	Pressure Tank	1	\$15,000	\$15,000	Replace existing pressure tank
	All fees (Administrative, Legal, Submittal, Project Management, Inspections, Engineering, Survey, Contingencies, etc.)		Subtotal	\$182,000	
				<u>\$46,000</u>	
			Total	\$228,000	

16. Staff concludes that the proposed improvement projects and estimated costs, totaling \$228,000, as delineated in Table A above, appear to be reasonable and appropriate. Staff states that approval of this Financing Application does not imply any particular future treatment for rate making purposes, and that no "used and useful" determination of the proposed plant, and no conclusions for rate making or rate base purposes should be inferred.

17. In its Supplemental Staff Report, Staff states that the Company's permanent rates do not provide sufficient operating cash flow to meet its proposed long-term debt obligation, and that consequently, a surcharge is necessary to provide funds for the principal and interest on the proposed WIFA loan. Staff states that the final details of the WIFA loan will not be known until after the Company closes on the loan. The WIFA loan surcharge mechanism established in Decision No. 71830 provides for the Company to submit a WIFA loan surcharge tariff application to the Commission in this Docket once the Company has closed on the loan. The WIFA loan surcharge requires Commission approval of the WIFA loan surcharge tariff application prior to becoming effective.

18. Staff recommends that:

- (a) The Commission approve the proposed improvement projects and estimated costs totaling \$228,000.
- (b) Upon completion of the first phase of capital improvements, the Company analyze its water systems to determine what, if any, other improvements the Company feels are necessary that would require additional financing.
- (c) The Company be required to file with Docket Control, as a compliance item in this docket, within 18 months of the effective date of this Decision, copies of the Approvals of Construction ("AOC") for each of the proposed improvement projects, as set forth in Table A.
- (d) The Commission authorize the Company to obtain an 18- to 22-year amortizing loan at the prevailing WIFA rate (currently estimated at 6.00 percent, less the Company's 20 percent WIFA subsidy), in an amount not to exceed \$228,000, to finance the capital improvements in Table A and discussed in the Supplemental Staff Report.
- (e) The Company be authorized to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.
- (f) The Company be authorized to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104 in connection with the WIFA loan.
- (g) The Company be required to file a copy of the executed loan documents with Docket Control, as a compliance item in this Docket, within 60 days of the execution of any transactions.
- (h) Any authorization to incur debt granted in this proceeding terminate one year from the issuance of a Decision in this matter if the loan has not been executed.
- (i) The actual amount of the WIFA loan surcharge be calculated based upon the actual amount of the WIFA loan and actual number of customers at the time of the loan closing.

(j) The Company file with the Commission a WIFA loan surcharge tariff application consistent with the WIFA loan surcharge mechanism that was adopted in Decision No. 71830.

(k) No surcharge be implemented until after the Commission has approved a surcharge subsequent to the Company filing a WIFA loan surcharge tariff application.

19. With the revised project descriptions and costs estimates set forth in Table A above, SVWC has complied with the requirement set forth in Decision No. 71830 that it provide Staff with sufficient information to prepare a revised Staff Report and for the Commission to determine whether the proposed financing complies with the requirements of A.R.S. §§ 40-301 and -302.

20. The Water Use Data Sheets that the Company filed on July 25, 2011, indicate a wide range of monthly fluctuation with respect to the water loss for each system. These reports do not allow a determination at this time that the Company has been able to reduce water loss to 10 percent or lower since the last rate case. In any case, the proposed financing is intended to address system repairs that should ameliorate the water loss problem. Consequently, the Company should evaluate each system after the proposed repairs and upgrades have been completed, and prepare a report indicating whether the water loss has been reduced to 10 percent or lower. The report should indicate if additional corrective measures are required to reduce water loss to less than 10 percent. If the Company finds that reduction of the water loss to less than 10 percent is not cost-effective, the Company shall submit a report that contains a detailed cost analysis and explanation demonstrating such conclusion. The Company should file the report on water loss by September 30, 2013.

21. Based on the WIFA loan surcharge mechanism approved in Decision No. 71830, the estimated surcharge amount is approximately \$16.28 per month for the 5/8 inch meter.⁴ Calculation of the actual surcharge will be determined when the Company files its WIFA surcharge tariff application. The estimate is based on the following calculations:

Step 1: Determine the Annual Payment on the Loan

0.0872	Annual Payment Conversion Factor
x \$228,000	Total loan amount
\$19,881.60	Annual loan payment

Step 2: Find the Equivalent Bills

⁴ Based on a 20-year amortizing loan in the principal amount of \$228,000 and interest rate of 6.0 percent, and the number of customers of each meter size as existed in the last rate case. The actual loan terms will differ from these results as the amount and terms of the loan and the number of customers will determine the actual amount of the surcharge.

Col A	Col B	Col C	Col D	Col D
Meter Size	NARUC Meter Capacity Multiplier	Average Number of Customers ⁵	Number of Months in Year	Equivalent Bills Col B x C x D
5/8" x 3/4" Meter	1	85.7	12	1,028
3/4" Meter	1.5	1	12	18
1" Meter	2.5	1.8	12	55
1 1/2" Meter	5	0	12	120
2" Meter	8	0	12	0
3" Meter	15	0	12	0
4" Meter	25	0	12	0
6" Meter	50	0	12	0
			Total	1,221

Step 3: Find the monthly surcharge for 5/8 x 3/4 -inch meter customers

$$\$19,881.60/1,221 = \$16.28 \quad \text{Annual Loan Payment/ number of equivalent bills} = \text{surcharge for the 5/8 inch customers}$$

Step 4: Find the monthly surcharge for remaining meter size customers

Multiply the result in Step 3 by the NARUC meter capacity multipliers:

Col A	Col B	Col C	Col D
Meter Size	NARUC Meter Capacity Multiplier	5/8" x 3/4" Customers' Surcharge	Surcharge by Meter Size Col B x Col C
5/8" Meter	1	\$16.28	\$16.28
3/4" Meter	1.5	\$16.28	\$24.42
1" Meter	2.5	\$16.28	\$40.70
1 1/2" Meter	5	\$16.28	\$81.40
2" Meter	8	\$16.28	\$130.24
3" Meter	15	\$16.28	\$244.20
4" Meter	25	\$16.28	\$407.00
6" Meter	50	\$16.28	\$814.00

22. Based on the usage patterns in the last rate case, the rates approved in Decision No. 71830 would result in a monthly bill of \$66.41 for the median user of 4,357 gallons.⁶ The addition of a WIFA surcharge, estimated to be \$16.28, would increase the monthly bill for the median residential user to \$82.69, a 24.5 percent increase.

23. This Company operates an aging system that suffers an inordinate amount of water

⁵ From Staff Report filed December 1, 2009.

⁶ See Decision No. 71830 at Findings of Fact No. 46.

1 loss and that requires constant repair. The current owner, Mr. Lewis, who acquired these systems in a
2 distressed state, has to date, invested substantial capital into the systems, but can no longer afford to
3 infuse equity. The Company has proposed a capital improvement project that should address the most
4 pressing needs of this aging system. This Phase 1 of the capital improvements is probably not the last
5 of the needed improvements, but the burden on ratepayers would be substantially greater if more
6 improvements are undertaken at this time.

7 24. The proposed WIFA loan is an appropriate financial instrument to finance the
8 proposed capital improvements. We concur with Staff's recommendations as set forth herein.

9 CONCLUSIONS OF LAW

10 1. SVWC is a public service corporation within the meaning of Article XV of the
11 Arizona Constitution and A.R.S. §§ 40-285, 40-301, 40-302, and 40-303.

12 2. The Commission has jurisdiction over SVWC and of the subject matter of the
13 application.

14 3. Notice of the application was given in accordance with the law.

15 4. The financing, in conjunction with the WIFA surcharge mechanism approved in
16 Decision No. 71830, as approved herein is for lawful purposes within SVWC's corporate powers, is
17 compatible with the public interest, with sound financial practices, and with the proper performance
18 by SVWC of service as a public service corporation, and will not impair SVWC's ability to perform
19 the service.

20 5. The financing approved herein is for the purposes stated in the application, is
21 reasonably necessary for those purposes and such purposes may not be reasonably chargeable to
22 operating expenses or to income.

23 ORDER

24 IT IS THEREFORE ORDERED that Sonoita Valley Water Company is authorized to borrow
25 up to \$228,000 from the Water Infrastructure Finance Authority, at an interest rate not to exceed the
26 current WIFA subsidized rate at the time the loan is executed, for the purpose of funding the
27 proposed improvement projects discussed herein.

28 IT IS FURTHER ORDERED that upon completion of the first phase of capital improvements,

1 Sonoita Valley Water Company shall analyze its water systems to determine what, if any, other
2 improvements the Company may feel are necessary that would require additional financing. Such
3 evaluation shall include water loss, and Sonoita Valley Water Company shall submit a water loss
4 report, indicating whether the water loss for each of its systems has been reduced to less than 10
5 percent, and if water loss has not been reduced to less than 10 percent, the report should contain a
6 detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent
7 is not cost effective. The Company shall file such report with Docket Control, as a compliance item
8 in this Docket, by October 31, 2013.

9 IT IS FURTHER ORDERED that Sonoita Valley Water Company shall file with Docket
10 Control, as a compliance item in this Docket, within 18 months of the effective date of this Decision,
11 copies of the Approvals of Construction for each of the proposed improvement projects, as set forth
12 herein.

13 IT IS FURTHER ORDERED that Sonoita Valley Water Company is authorized to engage in
14 any transactions and to execute any documents necessary to effectuate the authorizations granted
15 herein.

16 IT IS FURTHER ORDERED that Sonoita Valley Water Company is authorized to pledge its
17 assets in the State of Arizona pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104 in connection with
18 the WIFA loan.

19 IT IS FURTHER ORDERED that Sonoita Valley Water Company shall file a copy of the
20 executed loan documents with Docket Control, as a compliance item in this Docket, within 60 days
21 of the execution of any transactions.

22 IT IS FURTHER ORDERED that the authorization to incur debt granted in this proceeding
23 shall terminate one year from the effective date of this Decision if the loan has not been executed.

24 IT IS FURTHER ORDERED that the actual amount of the WIFA loan surcharge be
25 calculated based upon the actual amount of the WIFA loan and actual number of customers at the
26 time of the loan closing.

27 IT IS FURTHER ORDERED that Sonoita Valley Water Company shall file with the
28 Commission a WIFA loan surcharge tariff application consistent with the WIFA loan surcharge

mechanism that was adopted in Decision No. 71830.

IT IS FURTHER ORDERED that no surcharge will be implemented until after the Commission has approved a surcharge subsequent to Sonoita Valley Water Company filing a WIFA loan surcharge tariff application.

IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not constitute or imply approval or disapproval by the Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing just and reasonable rates.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____ 2011.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR:

SONOITA VALLEY WATER COMPANY

2 DOCKET NOS.:

W-20435A-09-0296 and W-20435A-09-0298

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